

Message Text

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ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 TRSE-00 FRB-01 AID-05 CIAE-00
COME-00 EB-08 INR-10 NSAE-00 ICA-20 XMB-04
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R 101125Z APR 78
FM AMEMBASSY BERN
TO SECSTATE WASHDC 6067
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMCONSUL ZURICH POUCH

UNCLAS BERN 1633

PASS TREAS AND FRB

E.O. 11652: N/A
TAGS: EFIN, SZ
SUBJ: PROPOSED REMOVAL OF MINIMUM SWISS CURRENCY GOLD
COVER REQUIREMENT

REF: HURLEY/BIZIC TELCON APR 6

1. SUMMARY: SWISS FED COUNCIL APR 4 SENT
PARLIAMENT DRAFT REVISED NATL BANK LAW. IN ADDITION
TO PROVIDING SNB GENERAL POLICY POWERS, DRAFT WOULD
ELIMINATE REQUIREMENT THAT SWISS NATL BANK (SNB)
MAINTAIN GOLD EQUIVALENT TO 40 PCT CURRENCY IN
CIRCULATION. STATED REASON WAS TO OBTAIN NEED
TO BUY MORE GOLD IN EVENT CURRENCY IN CIRCULATION
SUBSTANTIALLY INCREASES. GOVT SAID LEGAL CHANGE WOULD
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NOT DEMONETIZE GOLD. NEW SNB LAW WOULD BECOME EFFECTIVE
IN EARLY 1979 AFTER PASSAGE BY PARLIAMENT, SUBJECT TO
NATL REFERENDUM IF THAT PROCEDURE IS INVOKED.
END SUMMARY.

2. MESSAGE TO PARLIAMENT STATED THAT SINCE 1971
SUSPENSION OF US DOLLAR GOLD CONVERTIBILITY, SNB HAS

BOUGHT LITTLE GOLD BECAUSE OF LARGE DIFFERENCE BETWEEN OFFICIAL AND MARKET PRICES. SWISS ECONOMIC GROWTH CONSIDERABLY EXPANDED VOLUME OF CURRENCY IN CIRCULATION. SNB WOULD BE OBLIGED TO BUY MORE GOLD AT MARKET PRICES TO MAINTAIN LEGAL COVER REQUIREMENT IF CURRENCY EXPANSION CONTINUES. THIS WOULD EXERT UPWARD PRESSURE ON GOLD PRICE, EXACERBATING PROBLEM OF ESTIMATING VALUE OF SNB GOLD.

3. FED COUNCIL PROPOSES TO STRIKE OUT PRESENT PARA TWO IN ARTICLE 19 OF SNB LAW WHICH READS: "GOLD COVER MUST BE RAISED TO AT LEAST 40 PERCENT OF NOTES IN CIRCULATION. MINIMUM GOLD COVER SHOULD ALWAYS BE MAINTAINED IN SWITZERLAND". GOVT STRESSED IT IS UNLIKELY CONVERTIBILITY OF BANKNOTES TO GOLD WILL BE RESTORED. HOWEVER, GOLD WOULD CONTINUE TO BE GENERAL CURRENCY COVER, UNDER SWISS CONSTITUTION ARTICLE 39, SECTION 6, AND BECAUSE GOLD REMAINS STORE OF VALUE THOUGH GOLD STANDARD WAS ABANDONED.

4. REVISED ARTICLE 19 WOULD READ: EQUIVALENT VALUE OF BANKNOTES IN CIRCULATION MUST BE REPRESENTED BY: COINS AND GOLD INGOTS; DISCOUNTED PAPER AND CHECKS; FOREIGN ASSETS OF NO LONGER THAN SIX MONTHS DURATION; TREASURY AND CONFEDERATION BONDS; CONFEDERATION LOANS; CANTONAL AND CANTONAL BANK BONDS; MORTGAGES; UNCLASSIFIED

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BANKERS ACCEPTANCES; MUNICIPAL BONDS; LOMBARD LOANS AND SDR'S. (NOTE: BONDS MUST NOT BE LESS THAN 2 YEARS DURATION.)

5. MESSAGE STRESSED THAT REVISED LAW BY NO MEANS FORESEES DEMONETIZATION OF GOLD. SISS DO NOT PLAN TO SELL GOLD; DID NOT DRAFT LAW WITH INTENT TO HAVE IMPACT ON GOLD MARKET. ELIMINATION OF OUT-OF-DATE GOLD STANDARD PROVISIONS REQUIRES REVISION OF CONSTITUTION REGARDING REDEMPTION REQUIREMENT IN SWISS CONSTITUTION ARTICLE 39 SECTION 6. HOWEVER, THAT WOULD BE INAPPROPRIATE GIVEN PRESENT UNCERTAINTY ABOUT FUTURE OF NEW INTL MONETARY SYSTEM. SWISS BELIEVE IT PREMATURE TO EXCLUDE GOLD ENTIRELY FROM CENTRAL BANK POLICY, SO LONG AS MONETARY ASSISTANCE IS PROVIDED IN CERTAIN CASES WITH GOLD GUARANTEE. SWISS WILL CONSIDER IN FUTURE POSSIBLE REVISION OF PROVISIONS RE GOLD PARITY. SWISS BELIEVE PRESENT DRAFT REVISION SHOULD ALSO CONSOLIDATE APPLICATION OF FLOATING EXCHANGE RATES UNDER NEW INTL MONETARY SYSTEM.

6. COMMENT: ELIMINATION OF MINIMUM GOLD COVER
REQUIREMENT WOULD ALSO OBVIATE NEED TO REVALUE
PRESENT SNB GOLD HOLDINGS OF SF 11.9 BILLION AGAINST
NOTES IN CIRCULATION OF SF 19.4 BILLION. PARLIAMENTARY
MESSAGE INDICATED GOLD WAS LARGELY ACQUIRED AT OLD
OFFICIAL PRICE. REVALUATION AT PRESENT MARKET
PRICE COULD OPEN DOOR TO OTHER PROBLEMS. GOVT'S
CONSULTATIONS WITH LEADING SWISS ECONOMIC AND FINANCIAL
ORGANIZATIONS BEFORE PRESENTATION TO PARLIAMENT
ELICITED NO ADVERSE RESPONSE TO THIS PROVISION OF
DRAFT NEW SNB LAW.
WARNER

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